

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
DECEMBER 31, 2010 AND 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Labette County Medical Center d/b/a Labette Health provides a narrative overview of Labette Health's financial activities for the years ended December 31, 2010 and 2009. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

Labette Health's net assets decreased by \$1,313,396 or 3.4 percent in 2010 and increased by \$1,077,832 or 2.9 percent in 2009.

Labette Health reported an operating loss of \$425,235 in 2010 and reported operating income of \$1,003,684 in 2009 and \$1,383,833 in 2008.

Using these financial statements

Labette Health's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of Labette Health, including resources held by or for the benefit of Labette Health, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about Labette Health's finances is, "Is Labette Health as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about Labette Health's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report Labette Health's net assets and changes in them. Labette Health's net assets - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in Labette Health's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in Labette Health's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of Labette Health.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Assets, liabilities, and net assets

Labette Health's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current assets	\$ 14,871,875	\$ 16,380,518	\$ 18,213,270
Assets limited as to use	10,891,831	12,120,200	21,653,482
Capital assets, net	46,704,388	48,047,801	35,886,316
Other assets	<u>2,342,809</u>	<u>1,961,749</u>	<u>1,844,973</u>
 Total assets	 <u>\$ 74,810,903</u>	 <u>\$ 78,510,268</u>	 <u>\$ 77,598,041</u>
Liabilities			
Current liabilities	\$ 6,361,206	\$ 7,710,294	\$ 7,314,944
Long-term liabilities	<u>31,048,830</u>	<u>32,085,711</u>	<u>32,646,666</u>
 Total liabilities	 <u>\$ 37,410,036</u>	 <u>\$ 39,796,005</u>	 <u>\$ 39,961,610</u>
 Net assets	 <u>\$ 37,400,867</u>	 <u>\$ 38,714,263</u>	 <u>\$ 37,636,431</u>

Cash and cash equivalents in the current asset category decreased by \$1,080,807 in 2010 and decreased by \$1,034,795 in 2009. The changes in both years are due to cash flows from operations being less than the cash used by capital and related financing activities.

Net patient accounts receivable increased by \$645,487 in 2010 and decreased by \$438,546 in 2009. The number of days of net revenue represented by net accounts receivable was 57 days, 52 days, and 56 days as of December 31, 2010, 2009, and 2008, respectively. The median value of similar hospitals for this ratio is 46 days.

Net capital assets decreased by \$1,343,413 in 2010 and increased by \$12,161,485 in 2009. Capital asset acquisitions during 2010 and 2009 were funded from operating cash flow, capital lease obligations, and proceeds of the bonds issued during 2007. Cash outlays for capital asset acquisitions totaled \$5,004,740 during 2010, of which \$2,387,519 was for renovations and additions to Labette Health's facilities that are being paid for with proceeds from the 2007 bonds. Of the remaining \$2,617,221 of capital asset acquisitions, \$194,105 (7.4 percent) was financed with capital lease obligations and the rest was paid for from operating cash flow. Capital asset acquisitions in 2009 of \$10,203,147 for renovations and additions to Labette Health's facilities were funded from proceeds from the 2007 bonds. Total capital asset acquisitions in 2009 were \$15,009,748. Of the remaining \$4,806,601 of capital asset acquisitions, \$316,951 (6.6 percent) was financed with capital lease obligations and the rest was paid for from operating cash flow.

Labette Health's net assets decreased by \$1,313,396 or 3.4 percent in 2010 and increased by \$1,077,832 or 2.9 percent in 2009. The percentage of total assets financed with net assets, or equity, was 50.0 percent, 49.3 percent, and 48.5 percent as of December 31, 2010, 2009, and 2008, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Operating results and changes in net assets

Labette Health's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 53,318,989	\$ 53,169,310	\$ 52,344,756
Operating expenses	<u>53,744,224</u>	<u>52,165,626</u>	<u>50,960,923</u>
Operating income (loss)	(425,235)	1,003,684	1,383,833
Ambulance subsidy	589,341	621,308	643,221
Interest expense	(1,661,361)	(1,000,786)	(540,952)
Other nonoperating revenues	153,574	184,186	426,223
Capital grants and contributions	<u>30,285</u>	<u>269,440</u>	
Change in net assets	<u>\$ (1,313,396)</u>	<u>\$ 1,077,832</u>	<u>\$ 1,912,325</u>

The first, and most significant, component of the overall change in Labette Health's net assets is its operating income or loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Labette Health's operating income decreased by \$1,428,919 and \$380,149 in 2010 and 2009, respectively.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Inpatient services	\$ 41,884,776	\$ 40,936,518	\$ 36,925,740
Outpatient services	67,946,807	65,467,134	59,432,130
Physician services	<u>9,591,243</u>	<u>8,625,066</u>	<u>9,378,165</u>
Gross patient service revenue	119,422,826	115,028,718	105,736,035
Medicaid disproportionate share payments	455,118	909,899	1,322,986
Contractual adjustments	(60,202,404)	(56,845,542)	(49,910,907)
Provision for bad debts	(4,697,687)	(4,872,679)	(4,505,790)
Charity care	<u>(2,716,315)</u>	<u>(2,073,360)</u>	<u>(1,302,615)</u>
Net patient service revenue	<u>\$ 52,261,538</u>	<u>\$ 52,147,036</u>	<u>\$ 51,339,709</u>

Labette Health raised its overall charge rates by approximately 5.2 percent in 2010 and by approximately 8.1 percent in 2009. Total inpatient revenues increased 2.3 percent during 2010. The charge rate increases and a 7.6 percent increase in acute and ICU patient days in 2010 was partially offset by a 49.3 percent decrease in rehabilitation unit patient days and lower utilization of ancillary services than in 2009. Total inpatient revenues increased 10.9 percent during 2009. Inpatient operating room revenues increased by 57.5 percent because of the price increases and a 104 percent increase in the number of orthopedic surgery cases. All other inpatient revenues decreased 7.0 percent during 2009 because a 22.0 percent decrease in acute and ICU patient

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

days offset the charge rate increases. Outpatient revenues increased by 3.8 percent during 2010 because of charge rate increases and a 2.7 percent decrease in outpatient registrations. Outpatient revenues increased 10.2 percent during 2009 because of charge rate increases, which were more substantial for imaging services, and a 1.9 percent decrease in outpatient registrations. The change in physician service revenue is primarily due to changes in the number of physicians working for Labette Health.

Labette Health has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. These adjustments are affected by the mix of revenues as well as by increases in Labette Health's charge rates relative to changes in rates paid by third-party payors.

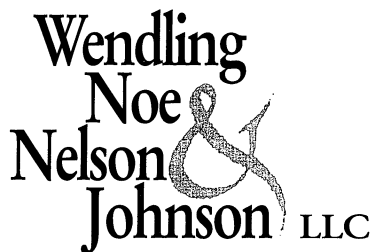
The provision for bad debts and charity care write-offs combined represent 6.2 percent, 6.0 percent, 5.5 percent, and 4.9 percent of gross patient service revenue during 2010, 2009, 2008, and 2007, respectively. This rising trend is reflective of the current health care environment in which an increasing number of patients are uninsured, or insured by plans requiring higher out-of-pocket expense covered by the insured.

Employee salaries and wages increased by \$1,040,630 or 4.8 percent in 2010 and decreased by \$33,116 or 0.2 percent in 2009. The number of full-time equivalent employees decreased by 4.6 (1.0 percent) during 2010 and decreased by 15.1 (3.2 percent) during 2009.

The cost of employee benefits equaled 20.0 percent of salaries and wages during 2010 and 22.3 percent in both 2009 and 2008. Variations in employee benefit costs generally correlate with claims experience under Labette Health's self-insured employee health insurance plan.

Supplies and other expenses increased by 1.7 percent and 2.7 percent during 2010 and 2009, respectively. These changes are consistent with the patient volume fluctuations experienced by Labette Health combined with the general rate of health care inflation.

Nonoperating revenues include sales tax revenues received from the County. This subsidy offsets losses incurred by Labette Health in operating the local ambulance service. Labette Health began receiving this subsidy in 2002.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Labette County Medical Center
d/b/a Labette Health

We have audited the accompanying financial statements of the business-type activity and discretely presented component units of Labette County Medical Center d/b/a Labette Health as of and for the years ended December 31, 2010 and 2009, which collectively comprise Labette Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Labette Health's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Labette Health's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component units of Labette County Medical Center d/b/a Labette Health as of December 31, 2010 and 2009, and their respective results of operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
June 20, 2011

FINANCIAL STATEMENTS

LABETTE COUNTY MEDICAL CENTER

D/B/A LABETTE HEALTH

BALANCE SHEETS

December 31,

ASSETS

	2010			2009		
	Labette Health	Foundation	Clinic	Labette Health	Foundation	Clinic
CURRENT ASSETS						
Cash and cash equivalents	\$ 3,898,618	\$ 328,728	\$ 96,883	\$ 4,979,425	\$ 125,863	\$ 77,069
Investments		802,326			728,189	
Assets limited as to use	801,236			2,101,301		
Patient accounts receivable, net of allowance for uncollectible accounts of \$2,229,368 in 2010 and \$2,082,113 in 2009	8,125,158			7,479,671		
Other receivables	76,715	33,095	783	159,138	35,896	5,113
Estimated third-party payor settlements	257,992			238,495		
Inventories	1,229,935			1,142,268		
Prepaid expenses	482,221			280,220		
Total current assets	14,871,875	1,164,149	97,666	16,380,518	889,948	82,182
ASSETS LIMITED AS TO USE						
Internally designated for capital assets	8,261,565			8,404,536		
Under indenture agreement - held by trustee	3,431,502			5,816,965		
By contributors for employee assistance and capital acquisitions		9,073			6,433	
Principal of permanent endowments		58,064			58,064	
	11,693,067	67,137	-	14,221,501	64,497	-
Less amounts required to meet current obligations	801,236			2,101,301		
	10,891,831	67,137	-	12,120,200	64,497	-
CAPITAL ASSETS, net	46,704,388	-	178,082	48,047,801	-	194,252
OTHER ASSETS						
Investment in affiliate	576,295			565,041		
Advances receivable	1,189,214			784,365		
Other	577,300	118,513		612,343	118,513	
	2,342,809	118,513	-	1,961,749	118,513	-
	\$ 74,810,903	\$1,349,799	\$275,748	\$ 78,510,268	\$1,072,958	\$276,434

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2010			2009		
	Labette Health	Foundation	Clinic	Labette Health	Foundation	Clinic
CURRENT LIABILITIES						
Current maturities of long-term obligations	\$ 1,081,836	\$ -	\$ -	\$ 953,409	\$ -	\$ -
Accounts payable	1,782,280			1,998,991		
Capital asset acquisitions payable	50,000			1,669,858		
Accrued salaries, wages, and benefits	1,210,012		6,304	879,881		5,627
Accrued compensated absences	1,105,558			1,032,185		
Accrued interest payable	616,833			608,544		
Accrued health insurance claims	339,624			344,839		
Estimated third-party payor settlements	172,070			214,280		
Deferred grant revenue	2,993			8,307		
Total current liabilities	6,361,206	-	6,304	7,710,294	-	5,627
LONG-TERM OBLIGATIONS, less current maturities	30,994,204	-	-	31,969,853	-	-
POST-RETIREMENT BENEFITS	54,626	-	-	115,858	-	-
NET ASSETS						
Invested in capital assets net of related debt	17,746,519		178,082	19,047,127		194,252
Restricted						
For debt service	840,631			836,861		
Expendable for capital acquisitions		220,623			36,623	
Nonexpendable permanent endowments		58,064			58,064	
Unrestricted	18,813,717	1,071,112	91,362	18,830,275	978,271	76,555
	37,400,867	1,349,799	269,444	38,714,263	1,072,958	270,807
	\$ 74,810,903	\$1,349,799	\$275,748	\$ 78,510,268	\$1,072,958	\$276,434

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended December 31,

	2010			2009		
	Labette Health	Foundation	Clinic	Labette Health	Foundation	Clinic
Operating revenues						
Net patient service revenue	\$ 52,261,538	\$ -	\$ -	\$ 52,147,036	\$ -	\$ -
Other	<u>1,057,451</u>	<u>339,633</u>	<u>81,113</u>	<u>1,022,274</u>	<u>312,455</u>	<u>83,417</u>
Total operating revenues	<u>53,318,989</u>	<u>339,633</u>	<u>81,113</u>	<u>53,169,310</u>	<u>312,455</u>	<u>83,417</u>
Operating expenses						
Salaries and wages	22,670,343		4,555	21,629,713		4,555
Employee benefits	4,523,568			4,817,941		
Supplies and other	21,610,746	143,156	61,751	21,980,416	360,711	57,500
Depreciation and amortization	<u>4,939,567</u>		<u>16,170</u>	<u>3,737,556</u>		<u>16,170</u>
Total operating expenses	<u>53,744,224</u>	<u>143,156</u>	<u>82,476</u>	<u>52,165,626</u>	<u>360,711</u>	<u>78,225</u>
Operating income (loss)	<u>(425,235)</u>	<u>196,477</u>	<u>(1,363)</u>	<u>1,003,684</u>	<u>(48,256)</u>	<u>5,192</u>
Nonoperating revenues (expenses)						
Ambulance subsidy	589,341			621,308		
Investment income	110,547	80,364		183,267	39,837	
Interest expense	(1,661,361)			(1,000,786)		
Noncapital grants and contributions	67,959			35,350		
Other	<u>(24,932)</u>			<u>(34,431)</u>		
Total nonoperating revenues (expenses)	<u>(918,446)</u>	<u>80,364</u>	<u>-</u>	<u>(195,292)</u>	<u>39,837</u>	<u>-</u>
Excess of revenues over (under) expenses before capital grants and contributions	(1,343,681)	276,841	(1,363)	808,392	(8,419)	5,192
Capital grants and contributions	<u>30,285</u>			<u>269,440</u>		
Change in net assets	(1,313,396)	276,841	(1,363)	1,077,832	(8,419)	5,192
Net assets beginning of year	<u>38,714,263</u>	<u>1,072,958</u>	<u>270,807</u>	<u>37,636,431</u>	<u>1,081,377</u>	<u>265,615</u>
Net assets end of year	<u>\$ 37,400,867</u>	<u>\$ 1,349,799</u>	<u>\$ 269,444</u>	<u>\$ 38,714,263</u>	<u>\$ 1,072,958</u>	<u>\$ 270,807</u>

The accompanying notes are an integral part of these statements.

LABETTE COUNTY MEDICAL CENTER

D/B/A LABETTE HEALTH

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2010			2009		
	Labette Health	Foundation	Clinic	Labette Health	Foundation	Clinic
Cash flows from operating activities						
Receipts from and on behalf of patients	\$51,554,344	\$ -	\$ -	\$52,442,607	\$ -	\$ -
Payments to or on behalf of employees	(26,831,884)		(3,878)	(26,176,986)		(3,866)
Payments for supplies and services	(22,521,974)	(143,156)	(61,751)	(21,603,507)	(360,711)	(57,500)
Other receipts and payments	<u>1,079,393</u>	<u>342,434</u>	<u>85,443</u>	<u>1,022,004</u>	<u>316,654</u>	<u>78,304</u>
Net cash provided (used) by operating activities	<u>3,279,879</u>	<u>199,278</u>	<u>19,814</u>	<u>5,684,118</u>	<u>(44,057)</u>	<u>16,938</u>
Cash flows from noncapital financing activities						
Ambulance subsidy	595,061			616,644		
Noncapital grants and contributions	<u>77,696</u>			<u>21,607</u>		
Net cash provided by noncapital financing activities	<u>672,757</u>	<u>-</u>	<u>-</u>	<u>638,251</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities						
Acquisition of capital assets	(5,004,740)			(15,009,748)		
Capital lease obligations incurred	194,105			316,951		
Repayments of long-term obligations	(1,010,410)			(998,331)		
Interest paid	(1,903,983)			(1,942,260)		
Capital grants and contributions	45,025			254,700		
Proceeds from sale of capital assets	<u>7,165</u>			<u>1,750</u>		
Net cash used by capital and related financing activities	<u>(7,672,838)</u>	<u>-</u>	<u>-</u>	<u>(17,376,938)</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities						
Changes in						
Assets held by trustee	2,385,463			9,821,504		
Internally designated funds	140,907			(412,082)		
Assets restricted by contributors		(2,640)			105,534	
Investments		(13,646)			(62,487)	
Investment income received	<u>113,025</u>	<u>19,873</u>		<u>610,352</u>	<u>22,443</u>	
Net cash provided by investing activities	<u>2,639,395</u>	<u>3,587</u>	<u>-</u>	<u>10,019,774</u>	<u>65,490</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(1,080,807)	202,865	19,814	(1,034,795)	21,433	16,938
Cash and cash equivalents at beginning of year	<u>4,979,425</u>	<u>125,863</u>	<u>77,069</u>	<u>6,014,220</u>	<u>104,430</u>	<u>60,131</u>
Cash and cash equivalents at end of year	<u>\$ 3,898,618</u>	<u>\$ 328,728</u>	<u>\$ 96,883</u>	<u>\$ 4,979,425</u>	<u>\$ 125,863</u>	<u>\$ 77,069</u>

The accompanying notes are an integral part of these statements.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2010			2009		
	Labette Health	Foundation	Clinic	Labette Health	Foundation	Clinic
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ (425,235)	\$ 196,477	\$ (1,363)	\$ 1,003,684	\$ (48,256)	\$ 5,192
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation and amortization	4,939,567		16,170	3,737,556		16,170
Provision for bad debts	4,697,687			4,872,679		
Changes in						
Patient accounts receivable	(5,343,174)			(4,434,133)		
Other receivables	46,912	2,801	4,330	(270)	4,199	(5,113)
Advances receivable	(404,849)			(136,353)		
Estimated third-party payor settlements	(61,707)			(142,975)		
Inventories	(87,667)			8,115		
Prepaid expenses	(202,001)			78,543		
Accounts payable and accrued expenses	120,346		677	697,272		689
Net cash provided (used) by operating activities	<u>\$ 3,279,879</u>	<u>\$ 199,278</u>	<u>\$ 19,814</u>	<u>\$ 5,684,118</u>	<u>\$ (44,057)</u>	<u>\$ 16,938</u>

The accompanying notes are an integral part of these statements.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Labette County Medical Center d/b/a Labette Health is owned by Labette County, Kansas (the County), and governed by a nine-member Board of Trustees appointed by the Board of County Commissioners of the County. Labette Health is a 109-bed, not-for-profit general hospital located in Parsons, Kansas. Labette Health can sue and be sued and can buy, sell, or lease real property. Bond issuances must be approved by the County. Labette Health is a component unit of the County.

The component units discussed in Note A2 are included in Labette Health's reporting entity because of the nature and significance of their relationships with Labette Health.

2. Component units

The financial statements include the financial data of the discretely presented component units described below. The component units are reported separately to emphasize that they are legally separate from Labette Health.

Labette Health Foundation, Inc. (the Foundation), is a not-for-profit corporation formed to receive, invest, and disburse funds received for the benefit, support, and maintenance of Labette Health. The Foundation is administered by a Board of Trustees, of which three members are appointed by Labette Health's Board of Trustees.

Labette County Medical Clinic, LLC (the Clinic), is a Kansas limited liability company that was formed on August 28, 1995, with a duration of 20 years. The Clinic is organized to own, manage, and operate a medical office building and to engage in any other lawful act or activity for which limited liability companies may be formed under the Kansas Limited Liability Company Act.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

Labette Health uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," Labette Health has implemented all GASB pronouncements and only relevant pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

5. Cash and cash equivalents

Labette Health considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use and items classified as investments by the Foundation.

6. Allowance for uncollectible accounts

Labette Health provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Labette Health estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the average cost method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; assets restricted by contributors for a particular purpose; and assets required by contributors to be retained in perpetuity. Amounts that are required for obligations classified as current liabilities are reported in current assets.

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

11. Costs of borrowing

Interest costs (including amortization of original issue premiums and discounts, deferred financing costs, and deferred refunding losses) incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt (including original issue premiums and discounts, and deferred refunding losses) are amortized using the interest method over the term of the related debt.

12. Grants and contributions

From time to time, Labette Health receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

13. Restricted resources

When Labette Health has both restricted and unrestricted resources available to finance a particular program, its policy is to use restricted resources before unrestricted resources.

14. Accrued health insurance claims

Labette Health is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. These estimates are based on known claims and historical claims experience.

Management believes that estimates for accrued health insurance claims are reasonable. However, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

15. Net assets

Net assets of Labette Health are classified in four components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net assets" are noncapital net assets that must be used

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

for a particular purpose, as specified by creditors, grantors, or contributors external to Labette Health, including amounts deposited with trustees as required by indenture agreements. "Restricted nonexpendable net assets" equal the principal portion of permanent endowments. "Unrestricted net assets" are remaining net assets that do not meet the definitions of the other three components of net assets.

16. Operating revenues and expenses

Labette Health's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is Labette Health's principal activity. Nonexchange revenues, including noncapital grants and contributions and the ambulance subsidy, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

17. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Charity care

Labette Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Labette Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

19. Income taxes

Labette Health is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

The Clinic is treated as a partnership for income tax purposes. Each owner not exempt from income taxes is responsible for paying taxes attributable to their share of the Clinic's net earnings.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE B - NET PATIENT SERVICE REVENUE

Labette Health has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the balance sheets as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute, rehabilitation, and skilled nursing care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or per day. Outpatient services are paid at prospectively determined rates per occasion of service. The prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Labette Health is paid for cost reimbursable and other items at tentative rates with final settlement determined after submission of annual cost reports by Labette Health and audits or reviews thereof by the Medicare fiscal intermediary. Labette Health's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Labette Health's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2008.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the provider, and other factors. Labette Health qualified for these disproportionate share payments during both 2010 and 2009.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

Labette Health has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to Labette Health under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of gross and net patient service revenue follows:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 119,422,826	\$ 115,028,718
Medicaid disproportionate share payments	455,118	909,899
Contractual adjustments	(60,202,404)	(56,845,542)
Provision for bad debts	(4,697,687)	(4,872,679)
Charity care	<u>(2,716,315)</u>	<u>(2,073,360)</u>
Net patient service revenue	<u>\$ 52,261,538</u>	<u>\$ 52,147,036</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 40 percent and 7 percent, respectively, of Labette Health's net patient service revenue during 2010, and 41 percent and 9 percent, respectively, of Labette Health's net patient service revenue during 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize Labette Health with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of Labette Health.

At December 31, 2010, the carrying amount of Labette Health's bank deposits, including certificates of deposit, was \$12,134,896 and the bank balances were \$12,568,343. Of the bank balances, \$1,545,532 was covered by federal depository insurance and \$11,022,811 was covered by collateral held by third-party banks, but not registered in Labette Health's name.

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE D - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2010</u>	<u>2009</u>
Internally designated for capital assets		
Cash	\$ 187,764	\$ 184,374
Certificates of deposit	8,048,915	8,193,212
Accrued interest receivable	24,886	26,950
	<u>\$ 8,261,565</u>	<u>\$ 8,404,536</u>
Under indenture agreement - held by trustee		
Cash and money market funds	<u>\$ 3,431,502</u>	<u>\$ 5,816,965</u>
By contributors for employee assistance and capital acquisitions		
Cash	<u>\$ 9,073</u>	<u>\$ 6,433</u>
Principal of permanent endowments		
Cash	\$ 1,434	\$ 1,434
Pooled investments (see Note E)	56,630	56,630
	<u>\$ 58,064</u>	<u>\$ 58,064</u>

NOTE E - INVESTMENTS

The Foundation's investments are stated at fair value. The composition of its investments is as follows:

	<u>2010</u>	<u>2009</u>
Money market mutual funds	\$ 59,650	\$ 141,631
Certificates of deposit		41,633
Common stock	49,431	
Equity mutual funds	479,899	352,391
Fixed income mutual funds	269,769	248,957
Accrued interest receivable	207	207
	858,956	784,819
Less principal of permanent endowment	<u>56,630</u>	<u>56,630</u>
	<u>\$ 802,326</u>	<u>\$ 728,189</u>

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE F - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2010			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land	\$ 919,074	\$ 80,125	\$ -	\$ 999,199
Buildings	47,904,542	6,500,077	164,586	54,240,033
Fixed equipment	8,110,340	633,067	9,365	8,734,042
Major movable equipment	18,712,880	934,266	604,391	19,042,755
Totals at historical cost	75,646,836	8,147,535	778,342	83,016,029
Less accumulated depreciation and amortization				
Buildings	14,719,303	2,685,060	137,932	17,266,431
Fixed equipment	4,769,077	477,323	8,060	5,238,340
Major movable equipment	13,055,363	1,777,184	588,999	14,243,548
	32,543,743	4,939,567	734,991	36,748,319
	43,103,093	3,207,968	43,351	46,267,710
Construction in progress	4,944,708	(4,508,030)		436,678
Capital assets, net	\$ 48,047,801	\$ (1,300,062)	\$ 43,351	\$ 46,704,388
	2009			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land	\$ 717,776	\$ 201,298	\$ -	\$ 919,074
Buildings	31,813,134	16,092,346	938	47,904,542
Fixed equipment	6,275,125	2,094,247	259,032	8,110,340
Major movable equipment	18,071,020	1,562,736	920,876	18,712,880
Totals at historical cost	56,877,055	19,950,627	1,180,846	75,646,836
Less accumulated depreciation and amortization				
Buildings	13,024,264	1,695,977	938	14,719,303
Fixed equipment	4,726,419	301,690	259,032	4,769,077
Major movable equipment	12,183,934	1,739,889	868,460	13,055,363
	29,934,617	3,737,556	1,128,430	32,543,743
	26,942,438	16,213,071	52,416	43,103,093
Construction in progress	8,943,878	(3,999,170)		4,944,708
Capital assets, net	\$ 35,886,316	\$ 12,213,901	\$ 52,416	\$ 48,047,801

LABETTE COUNTY MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE F - CAPITAL ASSETS - Continued

Construction in progress at December 31, 2010, consists primarily of costs incurred to date for various renovations to Labette Health's facilities and medical equipment not yet placed into service.

A summary of outstanding construction contract commitments for the construction project as of December 31, 2010, is as follows:

Total commitment	\$16,283,147
Costs incurred to date	<u>(16,147,147)</u>
Remaining commitment	<u>\$ 136,000</u>

NOTE G - INVESTMENT IN AFFILIATE

Labette Health's ownership interest in the Clinic was 76 percent at December 31, 2010 and 2009. The other investors in the Clinic are members of Labette Health's medical staff. Labette Health accounts for its investment in the Clinic using the equity method.

NOTE H - ADVANCES RECEIVABLE

Labette Health has determined that recruitment of physicians to serve the residents of Labette County is in the best interests of Labette Health, its patients, and the community, and will enable Labette Health to enhance its ability to meet the health care needs of the community's residents. To accomplish this, Labette Health has entered into agreements with certain physicians to provide them with financial assistance as an inducement for them to establish medical practices in Labette Health's service area. In return, the physicians agree to provide professional services for the residents of Parsons and Labette County over periods varying from three to six years. The financial assistance is rendered in the form of interest-bearing loans from Labette Health to the physicians. Upon establishment of their practices, principal and the accumulated interest on loans are forgiven ratably over the required service periods. If the physicians do not establish a medical practice, or if they leave the community prior to completion of the service obligation, they will be required to repay any unpaid or unforgiven principal and accumulated interest on the loans.

Labette Health's future exposure to credit loss on these agreements is dependent upon the performance of the physicians under these agreements.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE I - HEALTH INSURANCE CLAIMS

Labette Health sponsors a self-insured employee health insurance plan. Labette Health has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance arrangement generally covers claims totaling over \$60,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. Labette Health has retained an agent to process and settle claims. The following is a summary of the activity under this arrangement:

	<u>2010</u>	<u>2009</u>
Estimated net health insurance claims payable at beginning of year	\$ 344,839	\$ 285,531
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,119,787	2,181,751
Participant contributions	817,495	829,764
Payments made for claims and related expenses	<u>(2,942,497)</u>	<u>(2,952,207)</u>
Estimated net health insurance claims payable at end of year	<u>\$ 339,624</u>	<u>\$ 344,839</u>

NOTE J - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2010</u>	<u>2009</u>
5.00% - 5.75% Labette County, Kansas Hospital Refunding and Improvement Revenue Bonds, Series A, 2007; issued on July 19, 2007, in the original amount of \$24,765,000; due serially through September 1, 2037, with principal payments beginning on September 1, 2020, including unamortized premium of \$592,926 in 2010 and \$623,717 in 2009	\$ 25,357,926	\$ 25,388,717
7.00% Labette County, Kansas Taxable Hospital Refunding and Improvement Revenue Bonds, Series B, 2007; issued on July 19, 2007, in the original amount of \$6,435,000; due serially through September 1, 2019	5,460,000	5,885,000

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D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE J - LONG-TERM OBLIGATIONS - Continued

	<u>2010</u>	<u>2009</u>
Capital lease obligations; imputed interest rates from 4.45% to 5.99%; collateralized by leased equipment with an amortized cost of \$1,244,881 at December 31, 2010	\$ 1,263,240	\$ 1,654,545
Unamortized deferred refunding loss	32,081,166 (5,126)	32,928,262 (5,000)
Less current maturities	32,076,040 1,081,836	32,923,262 953,409
Long-term obligations, less current maturities	<u>\$ 30,994,204</u>	<u>\$ 31,969,853</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Hospital revenue bonds</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2009	\$ 1,935,925	\$ 31,704,253	\$ 33,640,178
Obligations incurred	316,951		316,951
Principal payments	(598,331)	(400,000)	(998,331)
Amortization of bond premium		(30,536)	(30,536)
Outstanding at December 31, 2009	1,654,545	31,273,717	32,928,262
Obligations incurred	194,105		194,105
Principal payments	(585,410)	(425,000)	(1,010,410)
Amortization of bond premium		(30,791)	(30,791)
Outstanding at December 31, 2010	<u>\$ 1,263,240</u>	<u>\$ 30,817,926</u>	<u>\$ 32,081,166</u>

On July 19, 2007, the County issued \$24,765,000 in Hospital Refunding and Improvement Revenue Bonds, Series A, 2007, and \$6,435,000 in Taxable Hospital Refunding and Improvement Revenue Bonds, Series B, 2007 (the 2007 bonds), for the benefit of Labette Health pursuant to a Bond Trust Indenture dated June 1, 2007. The proceeds of the 2007 bonds are being used, together with other available funds of Labette Health, for the purpose of providing funds to (1) pay for renovations and additions to Labette Health's facilities, (2) refund the Hospital Refunding Revenue Bonds, Series A, 1996, and Series A, 2001, previously issued for the benefit of Labette Health, (3) refinance an outstanding bank loan, (4) fund a debt service reserve fund for the 2007 bonds, and (5) pay for certain costs related to issuance of the 2007 bonds.

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D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE J - LONG-TERM OBLIGATIONS - Continued

The indenture agreement for the 2007 bonds requires Labette Health to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The obligations of Labette Health under the indenture agreement are secured by a pledge of its unrestricted revenues, subject to the right of Labette Health to dispose of or encumber property as defined and permitted in the indenture agreement. The indenture agreement also includes certain restrictive covenants relating to the disposition of property, incurrence of additional indebtedness, the level of days cash on hand, and the level of fees and rates charged. The covenant in the indenture agreement regarding the level of days cash on hand requires that those levels equal or exceed 45 days. The covenant in the indenture agreement regarding the level of fees and rates charged requires that fees and rates for services be set at levels sufficient for Labette Health to produce income available for debt service in each fiscal year equal to 125 percent of the debt service requirements during that fiscal year for outstanding debt.

The bond refunding and bank loan refinancing increased total future debt service requirements of Labette Health by \$4,112,932 because the repayment period of the new debt is significantly longer than were the remaining repayment periods for the extinguished debt. This resulted in an economic gain (difference between the present value of the future debt service payments on the old and new debt) of \$36,124. As a result of the bond refunding, a deferred refunding loss of \$5,045 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish that debt.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 460,000	\$ 1,793,400	\$ 2,253,400
2012	485,000	1,761,200	2,246,200
2013	520,000	1,727,250	2,247,250
2014	560,000	1,690,850	2,250,850
2015	595,000	1,651,650	2,246,650
2016 - 2020	3,670,000	7,569,800	11,239,800
2021 - 2025	4,870,000	6,345,175	11,215,175
2026 - 2030	6,435,000	4,782,563	11,217,563
2031 - 2035	8,505,000	2,707,675	11,212,675
2036 - 2038	4,125,000	359,087	4,484,087
	<u>\$ 30,225,000</u>	<u>\$ 30,388,650</u>	<u>\$ 60,613,650</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE J - LONG-TERM OBLIGATIONS - Continued

The following is a yearly schedule of future minimum lease payments under capital leases as of December 31, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 621,836	\$ 47,265	\$ 669,101
2012	462,436	19,834	482,270
2013	107,442	6,580	114,022
2014	<u>71,526</u>	<u>753</u>	<u>72,279</u>
Total minimum lease payments	<u>\$ 1,263,240</u>	<u>\$ 74,432</u>	<u>\$ 1,337,672</u>

Total interest costs are summarized as follows:

	<u>2010</u>	<u>2009</u>
Total interest incurred	\$ 1,912,272	\$ 1,934,154
Amortization of bond premium	(30,791)	(30,536)
Amortization of deferred financing costs	35,043	35,812
Amortization of deferred loss on bond refunding	<u>(126)</u>	<u>(125)</u>
	1,916,398	1,939,305
Less		
Interest earned on borrowed funds held by trustee offset against capitalized interest costs	(414)	(48,463)
Net capitalized interest costs	<u>(254,623)</u>	<u>(890,056)</u>
Interest expense	<u>\$ 1,661,361</u>	<u>\$ 1,000,786</u>

NOTE K - DEFINED CONTRIBUTION PENSION PLANS

Labette Health sponsors a defined contribution pension plan that provides pension benefits for substantially all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The provisions of the plan are as follows.

Employees become eligible for employer contributions after completing one year of service. Labette Health contributes a percentage of gross compensation based on the eligible employee's years of service as follows: 2 percent if more than one year but less than 5 years of service; 4 percent if five or more years of service but less than fifteen; and 6 percent if fifteen or more years of service. Labette Health may also make a discretionary matching contribution of participant contributions to the plan. The contribution

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE K - DEFINED CONTRIBUTION PENSION PLANS - Continued

cannot exceed a percentage of gross compensation based on the eligible employee's years of service as follows: 1 percent if more than five years of service but less than ten years of service and 2 percent if more than ten years of service.

The employees are not required to make contributions to the plan but may elect to contribute from 1 percent to 20 percent of the participant's compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions for each employee are fully vested after 10 years of continuous service.

For the years ended December 31, 2010 and 2009, Labette Health and covered employees made contributions to the plan as follows:

	<u>2010</u>	<u>2009</u>
Employer contributions	\$ 457,215	\$ 470,085
Employee contributions	<u>449,637</u>	<u>508,280</u>
	<u>\$ 906,852</u>	<u>\$ 978,365</u>

Labette Health has entered into deferred compensation agreements with certain employees. These agreements are eligible deferred compensation plans under Section 401(a) or 457(b) of the Internal Revenue Code. The plans can be amended by mutual consent of Labette Health and the plans' participants. All assets of the plans are held by a third-party investment company for the sole benefit of the employee and the employee's designated beneficiary. The plans generally provide for employer contributions based on the employees' years of service. The employees are not required to make contributions to the plans but may elect to contribute a percentage of compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions become fully vested after periods defined in each plan. For the years ended December 31, 2010 and 2009, Labette Health and covered employees made contributions to these plans as follows:

	<u>2010</u>	<u>2009</u>
Employer contributions	\$ 164,995	\$ 119,221
Employee contributions	<u>56,889</u>	<u>32,473</u>
	<u>\$ 221,884</u>	<u>\$ 151,694</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE L - CONCENTRATION OF CREDIT RISK

Labette Health grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at December 31, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Medicare	25.8%	33.4%
Medicaid	8.3	8.5
Blue Cross	11.2	10.7
Other insurers	24.0	18.9
Patients	<u>30.7</u>	<u>28.5</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE M - RISK MANAGEMENT

For the years ended December 31, 2010 and 2009, Labette Health was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. Labette Health is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against Labette Health for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate amount in any policy period of \$3,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2011, for the policy period from January 1, 2011 to January 1, 2012.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, Labette Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. Labette Health purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE N - COMMITMENTS AND CONTINGENCIES

Labette Health purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note M). There are known claims and incidents that have been asserted. These claims have been referred to Labette Health's insurance carriers and are in various stages of processing. No accrual for loss contingencies related to these items has been made in the financial statements as the amount of ultimate settlement, if any, cannot be reasonably estimated.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2010 and 2009

NOTE O - RELATED PARTY TRANSACTIONS

Labette Health received \$76,666 and \$300,617 of contributions from the Foundation during 2010 and 2009, respectively. Labette Health incurred \$98,071 and \$109,242 in salary expense on behalf of the Foundation during 2010 and 2009, respectively.

Labette Health paid rent to the Clinic totaling \$61,704 during both 2010 and 2009.

Labette Health has two capital lease obligations with a local bank. Outstanding principal balances on these obligations totaled \$391,788 at December 31, 2010. The President and a member of the board of directors of this bank both serve on Labette Health's Board of Trustees.

NOTE P - COUNTY TAX PROCEEDS

On June 26, 2001, voters of the County approved a .25 percent healthcare retailers' sales tax to be used as a source of funding for the provision of emergency medical services. The County has agreed to pay Labette Health an amount equal to the lesser of 100 percent of the sales tax or 95 percent of Labette Health's direct loss attributable to the provision of ambulance services.